

**REPORT OF THE AUDIT OF THE  
WARREN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**WARREN COUNTY CLERK**

**For The Year Ended**  
**December 31, 2010**

The Auditor of Public Accounts has completed the Warren County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

**Financial Condition:**

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Warren County Clerk had total receipts of \$23,683,538, which was a \$1,139,658 increase from the prior year. Except for reimbursed expenses in the amount of \$19,734, the County Clerk paid 25% of receipts to the Warren County Fiscal Court in the amount of \$576,867. This was an increase of \$18,006 from the prior year. In addition, expenditures of the 75% fund increased by \$1,089,993.

**Report Comments:**

- 2010-01 The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable
- 2010-02 The County Clerk Should Properly Calculate Compensatory Time And Maintain Leave Requests Forms

**Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanan, Warren County Judge/Executive  
Honorable Dorothy Owens, Warren County Clerk  
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2010. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2011 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Michael O. Buchanon, Warren County Judge/Executive  
Honorable Dorothy Owens, Warren County Clerk  
Members of the Warren County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable
- 2010-02 The County Clerk Should Properly Calculate Compensatory Time And Maintain Leave Requests Forms

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

July 28, 2011

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

Libraries and Archives Grant		\$	16,766
State Fees For Services			36,061
Fiscal Court			39,828
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	3,237,318	
Usage Tax		10,637,667	
Tangible Personal Property Tax		7,656,090	
Miscellaneous		12,093	
Other-			
Marriage Licenses		28,648	
Miscellaneous Licenses		1,610	
Deed Transfer Tax		365,099	
Delinquent Taxes		741,092	22,679,617
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		44,088	
Real Estate Mortgages		229,408	
Chattel Mortgages and Financing Statements		206,250	
Powers of Attorney		8,256	
Bail Bonds		88	
Fixture Filing		1,749	
Leases		2,188	
Liens & Lis Pendens		29,404	
Releases		54,891	
Wills and Estate Settlements		2,013	
Housing Trust Fund		135,816	
All Other Recordings		29,335	
Charges for Other Services-			
Candidate Filing Fees		2,060	
Copywork		23,198	
Notary Fees		32,982	801,726

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS  
For The Year Ended December 31, 2010  
(Continued)

Revenues (Continued)

Other:

Miscellaneous	\$	2	
Postage Reimbursements		23,551	
Imprest Balance		2,000	
Refunds/Overpayments		81,341	\$ 106,894

Interest Earned			2,646
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Total Revenues			23,683,538
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Expenditures

Payments to State:

Motor Vehicle-			
Licenses and Transfers	\$	2,187,239	
Usage Tax		10,318,262	
Tangible Personal Property Tax		2,562,374	
Web Renewals		54,569	
Licenses, Taxes, and Fees-			
Delinquent Tax		127,760	
Legal Process Tax		86,450	
Affordable Housing Trust		135,804	15,472,458

Payments to Fiscal Court:

Tangible Personal Property Tax	858,259	
Delinquent Tax	112,681	
Deed Transfer Tax	346,700	
Miscellaneous	931	1,318,571

Payments to Other Districts:

Tangible Personal Property Tax	3,883,775	
Delinquent Tax	275,276	4,159,051

Payments to Sheriff	58,381
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Payments to County Attorney	103,419
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The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS  
For The Year Ended December 31, 2010  
(Continued)

Expenditures (Continued)

Operating Expenditures:

Other Expenses-

Refunds	\$	85,619	
Bad Debt Expense		351	
Miscellaneous		5	
Library and Archives		16,766	\$ 102,741

Total Expenditures		21,214,621	
Less: Disallowed Expenditure		300	

Total Allowable Expenditures			\$ 21,214,321
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Net Revenues			2,469,217
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Payments to State Treasurer:

75% Operating Fund		1,892,050	
25% County Fund		576,867	2,468,917

Balance Due at Completion of Audit *			\$ 300
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\* A Check For \$300 Was Written To The County Treasurer On July 26, 2011.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND  
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2010

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2010	\$ 870,330	\$	\$ 870,330
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,892,050		1,892,050
Fees Paid to State - County Funds (25%)		576,867	576,867
Total Funds Available	2,762,380	576,867	3,339,247
<u>Expenditures</u>			
Warren County Government	1,036,141	576,867	1,613,008
Personnel Services-			
Clerk's Salary	103,284		103,284
Clerk's Expense Allowance	3,600		3,600
Clerk's Training Incentive	3,624		3,624
Deputies' Salaries	916,508		916,508
Employee Benefits-			
Employer's Share Social Security	70,658		70,658
Employer's Share Retirement	172,001		172,001
Employer's Paid Health Insurance	113,751		113,751
Other Payroll Expenditures	3,691		3,691
Contracted Services-			
Computer Equipment	189,822		189,822
Copy Machines	17,844		17,844
Microfilming	57		57
Printing and Binding	7,269		7,269
Materials and Supplies-			
Office Supplies	28,015		28,015
Other Charges-			
Books and Maps	8,767		8,767
Clerk and Deputy Bonds	7,097		7,097
Conventions and Travel	8,960		8,960
Miscellaneous Election Expense	879		879
Miscellaneous Office Expense	12,482		12,482

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND  
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS  
For The Year Ended December 31, 2010  
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures (Continued)</u>			
Other Charges- (Continued)			
Office Equipment Maintenance	\$ 1,884	\$	\$ 1,884
Office Repairs	390		390
Postage	25,000		25,000
Software License	990		990
Tax Bill Preparation	11,895		11,895
Telephone	5,276		5,276
Imprest Cash	2,000		2,000
Insurance	2,845		2,845
Capital Outlay-			
Office Equipment	3,763		3,763
Office Furnishings	3,887		3,887
Total Expenditures	<u>2,762,380</u>	<u>576,867</u>	<u>3,339,247</u>
Fund Balance - December 31, 2010	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2010

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

WARREN COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2010  
 (Continued)

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$16,760. Interest of \$6 was earned on the grant account for calendar 2010. Funds totaling \$16,766 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2010.

Note 5. Lease Agreements

The County Clerk's office was committed to the following lease agreements as of December 31, 2010:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Remaining Balance December 31, 2010
Software License and Service	\$ 5,450	60 months	7/21/2014	\$ 234,350
Hardware Rental and Service	9,627	60 months	7/21/2014	413,961
Totals	<u>\$ 15,077</u>			<u>\$ 648,311</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive  
The Honorable Dorothy Owens, Warren County Clerk  
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Warren County Clerk for the year ended December 31, 2010, and have issued our report thereon dated July 28, 2011. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-02.

The Warren County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Warren County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

July 28, 2011

## COMMENTS AND RECOMMENDATIONS



WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The County Clerk Lacks Segregation Of Duties And Has No Written Policy Over Accounts Receivable

A lack of adequate segregation of duties exists over accounts receivable in the County Clerk's office. During our review of internal controls, we noted the County Clerk has no written policy for the allowance or collection of accounts receivable. We reviewed accounts receivable journals and noted employees who allow charges are also responsible for the collection of the accounts receivable. No one independent of accounts receivable maintenance verifies the validity of or subsequent collection of charges. During testing, we noted the lack of oversight over accounts receivable allowed for an employee of the County Clerk to charge motor vehicle tax and license renewal. In addition, we noted the lack of oversight over accounts receivable allowed an employee to process the transactions for a car dealership she works for part-time.

A segregation of duties over accounts receivables or implementation of compensating controls, is necessary to protect assets from misappropriation and/or inaccurate financial reporting.

We recommend the County Clerk require: a) proper authorization for accounts receivable charges and collections, b) reconciliation of accounts receivable by someone independent of accounts receivable charges and collections, c) the adoption of a written policy over accounts receivable that details allowable charges and collection procedures, and d) transactions be processed by employees not employed by the customer.

*County Clerk's Response: Chief deputy and bookkeeping will be responsible for overseeing accounts. Policy will have to be written. The deputy clerk that works part-time for a car dealership is not suppose to process her work another deputy will do so.*

STATE LAWS AND REGULATIONS:

2010-02 The County Clerk Should Properly Calculate Compensatory Time And Maintain Leave Requests Forms

The County Clerk's office employees utilize compensatory time. A leave balance form is maintained which accumulates compensatory time balances. During testing of payroll, we noted the County Clerk does not properly calculate compensatory time earned. The County Clerk calculates compensatory time based on hours worked each day instead of total hours worked each week. We noted several instances during the pay period tested where employees earned compensatory time and this was not added to their compensatory time balance. One employee worked over 40 hours in a week and did not earn compensatory time at time and a half. We also noted employees taking leave time without proper documentation as to what type of leave was being used; therefore, we were unable to tell whether the compensatory leave balances were accurate. KRS 337.285 states that compensatory time should be calculated at time and a half for all hours worked in excess of 40 hours per week. We recommend the County Clerk maintain leave requests forms to document which type of leave employees are requesting in order to agree to employee timesheets. We also recommend if any employee works over 40 hours in a week they earn compensatory time at time and a half in accordance with KRS 337.285.

*County Clerk's Response: For the year 2011 we have a time clock.*

